COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 8.12.2003
COM(2003) 758 final

2003/292 (COD)

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Growth and Employment Initiative
Measures on financial assistance for innovative and job creating Small and Medium-Sized Enterprises (SMEs)

As at 29 May 2002

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005)

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EXPLANATORY MEMORANDUM

1. Introduction

The evaluation report on the Growth and Employment Initiative (1998-2000) has been prepared in accordance with Article 7(2) of the Council Decision 98/347/EC adopted on 19 May 1998. This Decision requires the Commission to provide an evaluation of the programme, notably as regards its overall utilisation, its immediate effects on the creation of employment and the prospects for the creation of employment in the long term by SMEs.

On 20 December 2000, by Decision 2000/819/EC, the Council decided to extend the financial instruments of the Growth and Employment Initiative (the SME Guarantee Facility, the ETF Start-up Facility and the Joint European Venture (JEV) programme) under this new legal basis. A new instrument, the Seed Capital Action, was also added. However, no additional budget was foreseen for JEV.

Annex II, point IV of this Decision notes that JEV needs to be simplified, in order better to respond to the needs of SMEs, including those in applicant States, and that the Commission was examining the possibility of such simplification. However, after careful analysis, the Commission has determined that it is not possible to simplify JEV significantly under Decision 2000/819/EC because:

– this Decision does not contain any rules to allow the Commission to adopt measures to change the structure of the programme as described in Annex II of Council Decision 98/347/EC;

– this Decision does not contain any rules to allow the Commission to adapt the eligibility criteria of the programme contained in Council Decision 98/347/EC;

– the budget for JEV was committed on the basis of the Framework Agreement signed between the Commission and the financial intermediaries in the JEV network. Any change to the substance of these agreements, which is considered necessary both in order to simplify the programme and to adequately protect the Community financial interest, would therefore not be consistent with Article 6(5) of the old Financial Regulation (in force at the time of the commitment);

– the budget for JEV was committed under the Growth and Employment Initiative (1998-2000) and is therefore reserved exclusively for those states that were members of the European Union and the European Economic Area at the time that Council Decision 98/347/EC entered into force. It is not therefore possible to use it for projects involving the accession and candidate countries;

– Decision 2000/819/EC does not allow the Commission to expand the definition of ‘transnational joint venture’ (the only eligible form of transnational cooperation foreseen under Decision 98/347/EC) to the broader ‘transnational partnership’ (referred to in Decision 2000/819/EC), which is considered necessary as part of any adaptation of the programme.

The evaluation of the Growth and Employment Initiative indicates that two of the three financial instruments, the SME Guarantee Facility and the ETF Start-up Facility, can be considered a success. However, the JEV programme, whose aim was to assist SMEs in creating new transnational joint ventures within the European Union (and later the European Economic Area), was not a success. This was due to low demand from the market (very little of the available budget was committed to projects), low employment creation, poor cost-effectiveness for both the Commission and SMEs, and generally low satisfaction with the instrument among SMEs.

2. Objectives of the Commission's proposal

The main objective of the Commission's proposal is to phase out the JEV programme as soon as possible and return the unspent funds (+/- EUR 43m) to the general budget.

At the same time, the Commission proposes to make several minor amendments to Annex I of Council Decision 2000/819/EC relating to the entry into force of the new RTD framework programme, the eligibility of RTD activities under ETF Start-up and the length of the start-up period for specific high tech sectors.

3. Content of the Commission's proposal

The following two documents are submitted to the Council and Parliament:

1. evaluation report on the Growth and Employment Initiative;

2. proposal to amend the Council Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005).

The Council together with Parliament in accordance with the procedure laid down in Article 251 of the Treaty is asked to adopt the proposed amendment of Council Decision 2000/819/EC, which comprises:

1. Authorisation of the phasing-out of the JEV programme;

2. Modification of Annex 1 of Council Decision 2000/819/EC to make a more explicit reference to the eligibility of RTD activities under the ETF Start-up Facility; to update the reference to the fifth framework programme for RTD (in order to take account of the launch of the sixth framework programme); and to extend the definition of the start-up period for specific high technology sectors, in particular life sciences, to 10 years (to reflect the extended pre-commercialisation product development and testing phases that are characteristic of these particular sectors).

1. EXECUTIVE SUMMARY

1.1. Description

The Growth and Employment Initiative[1] aims to foster the establishment and growth of SMEs, thus enabling them to create jobs. For this purpose, three schemes - the ETF Start-up Facility, Joint European Venture (JEV) and the SME Guarantee Facility have been implemented. Together, they target a broad range of SMEs. The ETF Start-up Facility and SME Guarantee Facility are operated by the European Investment Fund (EIF), whereas the JEV scheme is operated by the Commission services.

The ETF Start-up Facility provides financing to venture capital (VC) funds investing in high-growth SMEs particularly in their early stages of development and in the high technology sectors. Most of the VC funds supported by ETF Start-up have a national, if not regional, focus.

The aim of the JEV programme is to stimulate the creation of transnational joint ventures between SMEs within the European Economic Area (EEA) in order to help them to internationalise their activities and take full advantage of the Single Market.

The objective of the SME Guarantee Facility is to increase the supply of loans to smaller companies established in traditional sectors through the provision of loan guarantees. The SME financing is provided through a network of financial intermediaries that operate in the Member States within the public or private sector.

In accordance with Article 7(2) of the Council Decision, "*The Commission shall within 48 months at most from the date of its adoption, provide an evaluation of the programme, notably as regards its overall utilisation, its immediate effects on the creation of employment and the prospects for the creation of employment in the long term.*"

The period covering the commitment of budgetary funds for the financial instruments managed by the EIF came to an end on 28 May 2002, i.e. four years after the adoption of the Council Decision. The evaluation report was therefore timed to be presented after that date in order to take account of the full 48-month commitment period.

In the context of the evaluation, a survey of the beneficiaries of each scheme was carried out using questionnaires adapted for each instrument.

1.2. Overall utilisation

In general, the activity relating to ETF Start-up and the SME Guarantee Facility developed well, although it was affected in 2001 by the general downturn of risk capital markets world-wide and by banks' increasing reluctance to lend to SMEs in a generally deteriorating macro-economic environment. In 2002, however, the demand for guarantees picked up substantially, as banks requested additional security. As regards JEV, the take-up by the market was much lower than expected.

[1] Council decision 98/347/EC published in OJ L 155 of 29 May 1998 on measures of financial assistance for innovative and job-creating small and medium-sized enterprises - the growth and employment Initiative

The initial budgetary allocation of the Initiative amounted to EUR 423.56 million, of which EUR 168 million for the ETF Start-up Facility, EUR 57[2] million for JEV and EUR 198.56 million for the SME Guarantee Facility. Due to the high utilisation under the SME Guarantee Facility an amount of EUR 30.56m was transferred from JEV to the SME Guarantee Facility. As at 28 May 2002, i.e. the end of the commitment period, the initial budgetary allocation available for the ETF Start-up Facility and the SME Guarantee Facility was fully committed by the EIF. For JEV a total of EUR 14.5 million has been committed to projects, which represents 25% of its budgetary allocation.

In accordance with the Council Decision, for ETF Start-up and the SME Guarantee Facility, the interest earned on the trust accounts and, in the case of ETF Start-up, proceeds from realised investments were added to the resources of the facilities. As at 28 May 2002, these additional resources amounted to EUR 29.52 million, of which EUR 21.54 million were committed by the EIF.

Under the ETF Start-up Facility, some 206 SMEs in the high-technology sector had benefited from the programme, as per June 2002. This appears to be a reasonable number, taking into account that some VC funds are just starting their investment activities and that, in line with the specific characteristics of the venture capital sector, these funds have investment periods of up to 5 years. As at the same date, the SME Guarantee Facility had already supported over 112,000 smaller enterprises through enhanced access to loan finance. The overwhelming majority of these beneficiaries are micro-enterprises with fewer than 10 employees, due to the fact that around 45% of the enterprises are start-ups. As regards JEV, only 137 joint venture project proposals have been supported, which is far fewer than originally expected.

1.3. Immediate effects on the creation of employment

With regard to the ETF Start-up Facility that invests in the equity of SMEs in the high-technology sectors, the survey results (replies received from 57 SMEs) show a significant contribution towards employment. At the time of investment, each company had, on average, 15 employees, and subsequently went on to create, on average, an additional 20 jobs, which represents more than a doubling of employment. The most important contribution (excluding "other services") was from enterprises operating in the "Biotechnology/Life Sciences" and "Information Technology" categories.

JEV targets SMEs that intend to invest abroad in a joint venture. The questionnaires returned by SMEs that were supported by JEV indicate that 31 joint ventures have in fact been created, leading to 252 new jobs (an average of 8 jobs), which is disappointing. The SMEs have also increased employment in their own enterprise since submitting their JEV application, although it is not possible to demonstrate that JEV was in any way the cause.

With regard to the SME Guarantee Facility that targets smaller enterprises (fewer than 100 employees) and start-ups mainly in the traditional sectors, the survey results (replies received from 405 SMEs) show a significant contribution towards employment. At the time of the loan application, each company had, on average, 8 employees, and subsequently went on to create, on average, an additional 2.5 jobs, which represents more than a 30% increase. Micro-enterprises with fewer than 10 employees form about 76% of the total beneficiary population and reported a job increase of an impressive 86%. Marked increases, above 50%, were

[2] Including EUR 5 million allocated in 1997 for the JEV pilot action under the Third Multi-Annual Programme for SMEs 1997-2000.

achieved in the transport sector including travel agencies, storage and telecommunications and in education and health.

1.4. The prospects for the creation of employment in the long term

With regard to the ETF Start-up Facility, the forecasts for employment creation are significant: 18% by the end of 2002 and a further 26% by the end of 2003. The forecasts for job creation are most significant in the "Information Technology" sector and once again for "Biotechnology/Life Sciences". Since these are the two sectors most addressed by the ETF Start-up Facility, it is clear that the Facility is targeting an appropriate population.

For JEV, the SMEs that returned questionnaires anticipate that employment in their joint ventures will increase from 252 to 787 in 5 years' time. However, it is not known to what extent the increase will involve a transfer of employees from the participating enterprises.

Under the SME Guarantee Facility, prospects for employment, based on the survey, were approximately one new job per company in each of 2002 and 2003. These figures need to be seen in the light of the job creation that had already taken place by the end of 2001 and taking into account the size of the SMEs, i.e. mainly micro-enterprises with fewer than 10 employees. The results seem appropriate taking into account that these are mainly companies from the traditional sector with less growth potential than the companies in the high-technology sector targeted under the ETF Start-up Facility.

1.5. Main conclusions

The Growth and Employment Initiative addresses market gaps in the field of SMEs, in particular as regards access to equity, loan financing and support for the internationalisation of SMEs.

With all 3 Facilities it should be remembered that only after a considerable timelag can the full impact of the instruments be measured. This is, in particular, the case for ETF Start-up because of the cautious investment policy and the sluggish economic situation.

On the one hand, because of low economic growth, banks have become very reluctant to grant loans to SMEs without collateral, which has substantially increased market demand for loan guarantees. On the other hand, this deterioration in the macro-economic situation has depressed demand for venture capital.

The ETF Start-up Facility has increased the supply of venture capital to SMEs particularly in the early stages of development and in the high technology sectors where there is an identified market failure. The instrument is effective, with a significant impact on growth already achieved and the effect on employment has been very positive. The modifications undertaken under the MAP (the Multi-Annual Programme for Enterprise and Entrepreneurship, and in particular for SMEs (2001-2005)) have made it even more effectively targeted at a clearly identified market failure.

The SME Guarantee Facility has proven to be a very effective instrument reaching a sizeable population of SMEs active in a wide range of sectors throughout 12 Member States. In particular, there has been a significant increase in employment created by micro-enterprises (fewer than 10 employees). As with ETF Start-up, the extensions undertaken in the MAP Council decision have targeted it more effectively at a clearly identified market failure, in particular in the field of micro-credit guarantees.

JEV has fallen short of its objectives. It is expensive, slow and complicated to administer, demand for it has been low and any substantial simplification aimed at improving both its attractiveness and its effectiveness would entail losing the entire unused committed budget of +/- EUR 42 million. Moreover, the existing committed budget cannot be used for projects involving the candidate countries. It is therefore recommended to phase out the programme as soon as possible on the grounds of poor cost-effectiveness and lack of demand. It is not considered appropriate to try to launch a successor.

Overall, it can be concluded that two of the three instruments (ETF Start-up and SME Guarantee Facility) have been successful and continue to be relevant. Indeed, both received substantial additional budgetary means under the MAP, as well as being adapted to better meet market demand.

2. INTRODUCTION: MAIN RESULTS AND RECOMMENDATIONS

2.1. Introduction

The Growth and Employment Initiative follows on from the June 1997 Amsterdam Council and the November 1997 Luxembourg special Summit on employment. It puts emphasis on SMEs with growth potential, since such companies are often unable to raise finance because of the risk associated with their particular stage of development. The programme therefore aims to foster the establishment and growth of SMEs, thus enabling them to create jobs. For this purpose, three schemes - the ETF Start-up Facility, Joint European Venture (JEV) and the SME Guarantee Facility - exist to help as many SMEs as possible throughout the different growth phases. The Growth and Employment Initiative on measures of financial assistance was adopted by the Council (Decision 98/347/CE) on 19 May 1998 and became effective on the date of its publication, i.e. 29 May 1998. The ETF Start-up Facility and SME Guarantee Facility are operated by the European Investment Fund (EIF), whereas the JEV scheme is operated by the Commission services.

On 20 December 2000, by decision 2000/819/EC, the Council decided to extend the schemes of the Growth and Employment Initiative under a new legal basis, the Multi-Annual Programme for Enterprise and Entrepreneurship, and in particular for small and medium-sized enterprises (2001-2005). A new instrument, the Seed Capital Action, was also added.

In accordance with Article 7(2) of the Council Decision, the Commission is required to submit an evaluation report to the European Parliament and Council on the progress achieved on the implementation of the three financial instruments of the Growth and Employment Initiative (the ETF Start-up Facility, JEV and the SME Guarantee Facility): "*The Commission shall within 48 months at most from the date of its adoption, provide an evaluation of the programme, notably as regards its overall utilisation, its immediate effects on the creation of employment and the prospects for the creation of employment in the long term.*"

The operational phase of the financial instruments managed by the EIF terminated on the fourth anniversary of the Initiative, i.e. 29 May 2002. The evaluation report was therefore timed to be presented after that date in order to take account of the full 48-month commitment period.

This evaluation report should be read in conjunction with the 2001 annual report COM (2002)345, which the Commission presented to the European Parliament and the Council on the progress achieved on the implementation of the three financial instruments.

The evaluation report comprises several sections, with one for each of the financial instruments. The SME statistics are based on questionnaires and data, submitted to the Commission in the framework of these surveys.

The activity of the EIF relating to ETF Start-up and the SME Guarantee Facility developed according to plan, the latter delivering results above expectations. Therefore an amount of EUR 30.56m was transferred from JEV to the SME Guarantee Facility. Both programmes were affected at the end of 2001 by economic developments that led to a downturn in risk capital in Europe and banks' increasing reluctance to lend to SMEs. In 2002 the demand for guarantees went up substantially, as banks were requesting additional security. In this respect, it seems that banks may also have anticipated the possible impact of the proposed New Basle Capital Accord. It also proved very difficult for new businesses to access capital for seed and early stage investments, as a large number of venture capital funds are currently focusing on follow-on and later stage investments. As regards JEV, the take-up by the market was lower than expected, compared to similar joint venture instruments previously managed by the Commission and since discontinued.

The initial budgetary allocation of the Initiative amounted to EUR 423.56 million, of which EUR 168 million for the ETF Start-up Facility, EUR 57[3] million for JEV and EUR 198.56 million for the SME Guarantee Facility. As at 28 May 2002, i.e. the end of the commitment period, the initial budgetary allocation available for the ETF Start-up Facility and the SME Guarantee Facility was fully committed by the EIF. For JEV a total of EUR 14.5 million has been committed to projects, which represents 25% of its budgetary allocation.

In accordance with the Council Decision, for ETF Start-up and the SME Guarantee Facility, the interest earned on the trust accounts and, in the case of ETF Start-up, proceeds from realised investments were added to the resources of the facilities. As at 28 May 2002, these additional resources amounted to EUR 29.52 million, of which EUR 21.54 million were committed by the EIF.

[3] Including EUR 5 million allocated in 1997 for the JEV pilot action under the Third Multi-Annual Programme for SMEs 1997-2000.

The overview below gives the numbers of beneficiary projects by country across the 3 instruments of the Growth & Employment Initiative as at 31 December 2001.

	ETF Start-up Facility	JEV	SME Guarantee Facility	Total per MS
	N° of beneficiaries	N° of projects	N° of beneficiaries	
Austria		2	3,461	3,463
Belgium	3	10	797	810
Denmark	1	8	575	584
Finland	13	1	1,314	1,328
France	95	13	24,902	25,010
Germany	34	13	16,577	16,624
Greece		3		3
Ireland		3		3
Italy		12	28,744	28,756
Luxembourg	3	2		5
Netherlands	1	8	3,034	3,043
Norway*		1		1
Portugal		12	26	38
Spain		20	6,026	6,046
Sweden	10	5	3,461	3,476
United Kingdom	11	7	3,491	3,509
Non EU /other	8	1		9
Total	**179**	**121**	**92,408**	**92,708**

* Norway is not eligible under ETF Start-up and the SME Guarantee Facility

The following table gives the global budgetary amount committed to beneficiaries as at 31 December 2001).

	ETF Start-up Facility	JEV	SME Guarantee Facility
Total number of beneficiaries/projects	179	121	92,408
Amount (EUR million)	36.6	10.2	119.1

Since the three instruments are fundamentally different in character, it is not possible to construct any meaningful comparisons as to the cost per job or per beneficiary across the instruments.

The ETF Start-up Facility provides investment funding to venture capital funds that then invest in SMEs. The full results of such investment, both financial and in terms of employment, are usually not apparent for 5-10 years, especially when this period includes a substantial downturn in venture capital activity, as is currently the case. It is theoretically possible that all the funds committed under ETF Start-up may ultimately be repaid, in which case the cost to the Commission budget per SME beneficiary and per job created would be zero (there could even be a profit). It is also likely that the most significant job creation will take place in later years, assuming that there are at least one or two "shooting star" investments that grow strongly once they have survived their early stage.

The SME Guarantee Facility, on the other hand, provides funds to cover losses on portfolios of guaranteed loans. This money is placed in a trust account with the European Investment Fund and is called on as losses on loans occur. Ultimately all the money committed to the Facility should be used up to cover these loan losses, so that the final cost of the Facility is known. However, job creation will vary with time and the specific costs incurred and attributable to the job creation will vary as the loans are either repaid or written off. Therefore, it is not possible to have any reasonable estimate of the cost per job created. The number of SMEs benefiting from the Facility will be much higher than that for the ETF Start-up Facility, the leverage of the guarantee instrument being considerably greater since the risks are considerably lower. Also, job creation will be initially greater with the guarantee instrument although the long-term effect of ETF Start-up may eventually outstrip it.

Finally, the JEV programme provides a direct grant to SMEs, paid against proof of eligible costs/investment. Nonetheless, when a project is originally approved, the maximum commitment of EUR 100,000 has to be made in each case (since the SME may ultimately be able to claim this). However, the true final cost of each application to the Commission budget is not normally known for 18-36 months after approval of the project, before which time it is not possible to be sure of the cost per beneficiary or per job created.

2.2. Main Results and Recommendations

2.2.1. ETF Start-up

– The ETF Start-up Facility has increased the supply of venture capital to SMEs, particularly in the early stages of development and in the high technology sectors where there is an identified market failure.

– The instrument is effective, with a significant impact on growth already achieved. The effect on employment has been very positive.

– There is general expectation that there will be a further positive influence on job creation in the next year or two, particularly in the "Information Technology" sector and in "Biotechnology/Life Sciences".

– Through the co-investments of the EIF in venture capital funds, the structure is an efficient way of making larger amounts available to final beneficiaries and is an efficient use of Community resources.

– The ETF Start-up Facility has the potential to be attractive to the candidate countries.

– Restricting future use of the instrument to seed and early stage investment (as has already been done in the Multi-Annual Programme for Enterprise and Entrepreneurship (2001-2005)) should make it even more effectively targeted at a clearly identified market failure.

2.2.2. SME Guarantee Facility

- The SME Guarantee Facility proved to be a very effective tool as part of a set of measures available to smaller SMEs with growth potential.
- It has reached a sizeable population of SMEs active in a wide range of sectors.
- More than 90% of enterprises benefiting from a guaranteed loan had fewer than 10 employees and there has been a significant increase in employment created by these micro-enterprises. This is in line with expectation as some of the programmes guaranteed target start-ups which represent around 45% of SMEs guaranteed.
- The majority of beneficiaries are in traditional sectors.
- It should continue to be implemented via a network of financial intermediaries and their banking connections, managed by the European Investment Fund.
- Extension of the Facility to EU candidate countries, where access to finance is especially difficult, should prove particularly beneficial.

2.2.3. JEV

- Overall, JEV has fallen short of its objectives.
- It is expensive, slow and complicated to administer, demand for it has been low and any substantial simplification aimed at improving both its attractiveness and its effectiveness would entail losing the entire unused committed budget of +/- EUR 42m. Moreover, the existing committed budget cannot be used for projects involving the candidate countries.
- It is therefore <u>recommended to phase out the programme as soon as possible</u> on the grounds of poor cost-effectiveness and lack of demand.
- It is not considered appropriate to try to launch a similar successor scheme.

3. METHODOLOGY OF THE EVALUATION

3.1. Purpose and scope of evaluation

Article 7 of Council Decision 98/347/EC requires that an evaluation of the programme be performed notably to cover the following:

- the overall utilisation of the programme;
- the immediate effects of the programme on the creation of employment;
- the effect of the programme on the prospects for the creation of employment in the long term.

The evaluation was based on a survey of the beneficiaries using questionnaires adapted for each instrument.

3.2. Main evaluation questions

The main evaluation questions were designed to cover the following broad areas:

- the **relevance** of the programme's objectives;
- the **effectiveness** of the programme;
- its **efficiency**;
- the **added value**/utility of the Community intervention;
- the **appropriateness** of the programme's intervention logic to promote the objectives and
- to determine what **lessons** may be learned for possible future interventions of a similar type.

Each instrument was considered separately, given their specific characteristics, and within the guideline areas above. This resulted in a series of questions adapted to each separate instrument as summarised below.

3.3. Methodologies for the data collection and analysis

Questionnaires were distributed as described below. For all the Facilities, an electronic mailbox was set up to receive the responses. This had the capability to receive either e-mail messages (with or without spreadsheet attachments) or fax messages.

4. ETF START-UP FACILITY

This section should be read in conjunction with the 2001 annual report of the Growth and Employment Initiative (1998-2000) COM(2002)345 of July 1, 2002 which includes a description of the Facility.

4.1. Main conclusions and Recommendations

The ETF Start-up Facility has increased the supply of venture capital to SMEs particularly in the early stages of development and in the high technology sectors where there is an identified market failure and is thus contributing to the objectives of the Growth and Employment Initiative.

The survey clearly indicates that the instrument is effective with a significant impact on growth already achieved. The effect on employment in individual beneficiary companies has been very positive indeed. The reaction of participants has been very favourable and they generally expect that there will be further positive influence on job creation in the next year or two, particularly in the "Information Technology" sector and in "Biotechnology/Life Sciences".

The structure put in place, whereby the ETF Start-up investments in the venture capital funds are necessarily complemented by money from other investors, is an efficient way of making larger amounts available to final beneficiaries. This set-up and the use of the EIF as the mandated manager is also an efficient use of Community resources.

The instrument has increased the availability of venture capital, providing valuable support from the venture capital funds, both financial and non-financial.

The ETF Start-up Facility clearly has a role to play in the Commission's support of SMEs and should be expected to contribute to their growth and employment creation for a number of years. When extended, it has the potential to be especially attractive to the candidate countries.

4.2. Overview of the Facility

The objective of the ETF Start-up Facility is to increase the availability of risk capital to innovative SMEs with emphasis on their establishment and early stage development. Existing innovative SMEs are also eligible. The ETF Start-up Facility has been set up to strengthen the availability of seed and early-stage financing for SMEs, through investment in specialised venture capital funds.

These venture capital funds (hereunder referred to as VC funds) were established specifically to provide equity or other forms of risk capital to SMEs. The funds considered under this Facility are smaller or newly established ones, in particular those operating at a regional level, those focusing on specific industries or technologies and those which finance the exploitation of R&D results.

4.3. Context of the operation

Most of the VC funds that have contractual agreements with the EIF have a national, if not regional, focus, although some of them are allowed to invest on a pan-European basis. They are mainly oriented towards early stage investments in high technology areas, such as information and communication technologies, Internet, healthcare and life sciences.

As at 29 May 2002, following due diligence by the EIF, 29 proposals for investment into VC funds were submitted, of which 28 were approved by the EIF and the Commission services. 16 contracts have been signed with the EIF and 6 are still being processed (22 in total). For the remaining 6, final negotiations were unsuccessful. The breakdown for the 22 VC funds (16 signed and 6 under process) by country is as follows:

France	20.9%
Germany	14.4%
UK	11.0%
Spain	10.4%
Finland	6.8%
Denmark	6.1%
Portugal	6.0%
Luxembourg	6.0%
Austria	6.0%
Italy	6.0%
Sweden	3.4%
Belgium	3.0%

The total amount earmarked for these 22 VC funds is EUR 166.1 million.

For the 16 VC funds with whom the EIF has signed contracts, the ETF Start-up contribution amounts to EUR 105.4 million. Taking into account the commitments made by all investors, the global maximum funding to be raised by these 16 VC funds amounts to EUR 602.3 million. It should be noted that the EIF, by making known its willingness to invest, sometimes acts as a catalyst for attracting private funding without ultimately having to invest Community funds, which could therefore be reserved for even higher risk investments that promise greater additionality from the Community contribution.

It is worth mentioning that as at 29 May 2002 and subject to successful completion of the negotiation of contracts for the six transactions that have not been signed as of that date, there were only three EU countries not covered by ETF Start-up, i.e. Greece, Ireland and the Netherlands. In recent months a growing number of proposals from these countries has been assessed and the EIF has made a special effort to develop transactions in countries where the ETF Start-up Facility so far has not been used[4].

The 6 VC funds currently in negotiation reflect to some extent the efforts undertaken by the EIF at the end of 2001 and the beginning of 2002 to maximise the efficiency of the Facility. The delays in concluding negotiations are a symptom of the very difficult conditions in which to raise funds from private investors. Satisfactory conclusion will enhance the catalytic value of the Facility.

EIF has also drastically increased its efforts to ensure a timely closing of the transactions that have been approved but not yet signed and dedicated specific resources to assisting the VC Managers in the preparation of the fund documentation according to best market practice, in order to set an optimal framework for attracting further private sector investors for these transactions. Despite these efforts, the fundraising climate for the investment stage targeted by the ETF Start-up Facility is currently very difficult, with a distinct risk that individual operations may not reach the required fundraising targets.

4.4. Development of the Facility

The take-up in the early years was slow but has picked up in 2001/2002. Furthermore, the first VC funds were mainly located in France and Germany and it took until 2001 before the geographical range was extended so that broad coverage was achieved by 2002. Although France and Germany are still dominant in terms of SMEs financed due to their earlier start, the situation is evolving into a more balanced picture.

The worsening economic climate had a significant impact in terms of expected returns for the venture capital funds. The deterioration of stock market conditions since the end of 2000, aggravated by the events of 11 September 2001, has taken its toll on valuations. Indeed, some exits have been delayed due to a significant decrease in buying offers, while a more selective policy for investing in early stage companies has led to financing difficulties for some start-ups already in portfolios. This has led to a cyclical peak as far as write-offs are concerned.

For the 16 VC funds with whom the EIF has signed contracts, and for whom the ETF Start-up contribution amounts to EUR 105.4 million, the EIF disbursement as at 30/06/02 totalled EUR 55.4 million.

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[4] In Greece, Ireland and the Netherlands, contacts have been established for operations to be placed in the pipeline.

These funds have already reimbursed EUR 15.8 million to the EIF, composed of either dividends, interest or proceeds from the sale of their shareholdings. Furthermore the net asset value of the EIF investment in the VC funds amounts to EUR 39.6 million, based on the most recent information available at the end of June 2002. This represents a total of EUR 55.4 million, which is exactly equal to the total disbursement at the same date. However, this disguises the fact that all but one of the funds have, on the basis of the current valuations of the portfolio companies, potentially lost money in line with the general market conditions. Nevertheless, the performance of the only fund with a positive return as of today has offset the losses of the others, since this one fund (the very first to receive ETF Start-up funding) was able to make a number of successful and highly profitable exits before market conditions deteriorated drastically. However, as only half of the contracted amounts have been invested by the VC funds, and thus disbursed by the EIF, this reflects their very cautious investment policy in a difficult market.

4.5. Market developments[5]

The development of the programme should be seen in the context of the overall situation of the European venture capital industry.

According to the EVCA[6] Annual Survey of Pan-European Private Equity and Venture Capital Activity for 2001, private equity investment across Europe showed a widely expected decrease in activity compared to 2000 and dropped back to 1999 levels.

The Survey states that EUR 38.2bn of funds were raised, which represents a drop of EUR 9.8bn compared to 2000 (EUR 48bn), i.e. a drop of 20%. In particular, for this year EUR 24.3bn was invested in 8,104 companies, a drop in investment amount of 31% compared to 2000. Of the number of companies financed by private equity, over 45% were initial investments.

The survey shows that EUR 12.2bn was invested in venture capital, representing a decrease of 38% compared to 2000. Of particular interest is that EUR 4.2bn was invested in 3,306 early stage companies. This was lower than 2000 where 6.7bn was invested in 4,676 companies. In the expansion stage, EUR 8bn was invested in 3,708 companies in 2001. Again, this is lower than in 2000, when EUR 13bn was invested in 4,506 companies. The percentage invested in buyouts increased from 41% to 45% of the total amount in 2001, representing EUR 10.9bn.

Concerning sectors, the survey states that in line with the general difficulties in the technology sector, high-tech investment fell in 2001 compared to the year 2000. The amount invested in companies operating in high-tech sectors was EUR 6.9bn, down by 38% on the year 2000.

Regarding trends in Country Investment, in 2001 the private equity houses based in the UK continued to lead by amount invested, with EUR 6.9bn or 29% of the total European amount being invested. At 18% of total amount (EUR 4.4bn), Germany is now second, followed by France (EUR 3.3bn). In terms of number of companies, Germany now leads in Europe, having invested in 1,969 companies, followed by France, with 1,546 companies. With an all-time record of EUR 20.5bn, and now contributing just over half of European funds raised, the

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[5] For further details, refer to the recent report on the implementation of the Risk Capital Action Plan (RCAP) COM(2002) 563 final.
[6] EVCA: European Venture Capital Association.

UK was again the highest in fundraising in 2001, raising 54% of the total, followed by France with EUR 5.5bn and Germany with EUR 3.7bn.

On the other hand, the amount disinvested, measured at cost, increased from EUR 9.1bn to EUR 12.5bn in the year 2001. There was also a pronounced decrease in the number of companies going for an initial public offering, decreasing from 249 in 2000 to 47 in 2001. Write-offs represented 23% of total disinvestment, up substantially from EUR 0.7bn in 2000 to EUR 2.8bn in 2001.

4.6. Methodology for questionnaires

The questionnaire to enterprises that had participated in this Facility was designed to determine:

- the type of investment and the perceived effect of the Facility;
- the effect on the employment situation at the end of 2001;
- the degree of satisfaction with the venture capital fund and the perspectives for employment in the near future.

4.7. Methodologies for the data collection and analysis

The complete population of 158 enterprises, at the date of the survey, on the database maintained by the EIF was addressed. Reminders were sent out to those not replying after 3 weeks. The venture capital funds were advised that the survey was being undertaken and a list of their enterprises surveyed was provided to them. Otherwise, they were not asked to participate directly.

4.8. Results of the Survey

Of the potential 158 enterprises, 125 were still active within the portfolio of the venture capital funds. Of the remainder, 14 have been sold off, 12 written off and 7 have failed. A total of 59 enterprises responded to the questionnaire. Two enterprises responded without completion of the questionnaire. The following analysis is based on the 57 questionnaires returned.

From the time of the initial investments until the end of 2001, there was a significant contribution towards employment. From about 880 declared initially, the employee count reached almost 2,060 by the end of 2001, an increase of just over 130%. More than half of the employees (55%) were in the 25-34 age range, with 95% being in full time employment and a male:female ratio of approximately 2:1. Five enterprises reported a drop in employee numbers for a total of 31 positions. It should be noted that one German company stood out from the crowd, having created 360 jobs from a base of 40 on application. Excluding this figure from the totals would still give, however, an increase of 95%.

The analysis of the employment forecasts assumed that those companies that did not attempt to estimate their employee head count for the end of 2002 and 2003 would at least maintain the positions declared at the end of 2001. Although forecasts for future employment creation were somewhat more conservative, they were still significant at 18% by the end of 2002 and a further 26% by the end of 2003. It is clear that the effect on employment amongst our respondents was very positive indeed and is likely to continue.

An analysis by activity (using the European Venture Capital Association classification) was carried out. This indicates that the most important contribution (excluding "other services") was from enterprises operating in the "Biotechnology/Life Sciences" and "Information Technology" categories, where 40 of the 57 respondents classified themselves. Both had declared employment creation in excess of 200%. Even when adjusting for the German company referred to above, the declared increase in the "Biotechnology/Life Sciences" sector was 95%.

The forecasts for future job creation were most marked in the "Information Technology" sector and once again for "Biotechnology/Life Sciences", with or without adjustment. Since these are the 2 sectors most addressed by the ETF Start-up Facility, it is clear that the Facility is targeting an appropriate population.

The initial capital injection was provided i.a. for start-up (40%), seed capital (26%) and for expansion (25%). It was foreseen primarily to finance research and technological development (70%), marketing and distribution (46%) and new product and service development (42%) with about 19% indicating a degree of geographical expansion[7].

A large majority (79%) had not generated a profit by the end of 2001 and a significant proportion (19%) did not expect to do so until 2005 or later. Most respondents expect a positive effect in a longer timeframe. The declared average sales revenues in the year of the initial investment were EUR 1.3 million and at the end of 2001 this had risen to EUR 3.5 million, an increase of roughly 170%.

Almost all (96%) of the beneficiaries maintained that in the absence of the venture capital investment they could not have existed (49%) or would have grown more slowly (47%).

With respect to the support offered by the venture capital funds, it appears that their involvement in the projects has been more than simply financial. Only 18% of respondents said that the funds had not offered any additional management advice and 93% said that they were satisfied or very satisfied with the fund involvement.

4.9. Conclusions and Recommendations

Relevance and appropriateness

The ETF Start-up Facility, in making available financial support to SMEs, particularly in the early stages of development and in the high technology sectors, where by definition the potential for growth is high, is certainly contributing to the objectives of the Growth and Employment Initiative.

This instrument clearly helps to alleviate an identified market failure. The October 2002 Communication from the Commission concerning the Risk Capital Action Plan highlighted that early stage and technology investments in Europe fell significantly in 2001. This downturn has been less sharp in Europe than in the US. However, early stage investments in Europe still represent around one third of the equivalent type of investments in the US.

[7] Multiple responses possible.

Effectiveness

Growth was perceived by the companies as being the main impact from the VC investments, with noticeable effect already achieved. It is clear, however, that the full effect on growth is expected to take place within a timeframe extending over a number of years.

Although the instrument has been slow in taking off, in time it should be able to show its full potential. The survey clearly indicates that the instrument is effective. The impact on employment has been very positive indeed, albeit in a rather small number of participants. The reaction of participants has been very favourable and they generally expect that there will be further positive influence on job creation in the next year or two, particularly in the "Information Technology" sector and in "Biotechnology/Life Sciences".

Although a large majority had not yet become profitable and some did not expect to be until 2005 or later, there was a very optimistic expectation of growth in turnover. The impact on sales revenues has already been (by 2001) very positive, with declared sales figures having already doubled. It should, however, be remembered that the realisation of these expectations may depend on the availability of future rounds of equity financing.

Efficiency

The ETF Start-up Facility is implemented through a series of venture capital funds that have access to a wide range of potential beneficiaries. The structure put in place, whereby the ETF Start-up investments in the funds are necessarily complemented by other funds from other investors, is an efficient way of making larger amounts available to final beneficiaries. In particular, the private sector involvement in the funds (*pari passu* with ETF Start-up) gives extra confidence in the financial viability of these funds. This arrangement, with the EIF as the mandated manager of the instrument, is also an efficient use of Community resources, requiring as it does a limited level of human resources for the Commission.

Added value

It seems clear that this instrument has added value by increasing the availability of venture capital. Almost all the beneficiaries maintained that, without the injection of venture capital, they could not have existed or would have developed more slowly.

The survey confirmed that valuable support was offered by the venture capital funds in addition to their financial involvement.

Lessons to be learned

It is worth noting that, subject to successful completion of the negotiation of contracts for six transactions that have not been signed as of 29 May 2002, there are only three EU countries that have not been covered by ETF Start-up, i.e. Greece, Ireland and the Netherlands. In recent months a growing number of proposals from these countries has been assessed and some attempt made to develop activity where the ETF Start-up Facility so far has not been used. Better penetration of other Member States should also be sought. The success of the Facility and the increased presence of the EIF in venture capital markets should facilitate its marketing.

The ETF Start-up Facility clearly has a role to play in the Commission's support of SMEs and should be expected to contribute to their growth and employment creation for a number of years. When extended, it has the potential to be especially attractive to the accession countries.

Restricting future use of the instrument to seed and early stage investment should make it even more effectively targeted to a clearly identified market failure. This has already been included in the Multi-Annual Programme for Enterprise and Entrepreneurship, and in particular for SMEs (2001-2005).

Regular monitoring should be performed to confirm its continuing success.

5. JEV (JOINT EUROPEAN VENTURE) PROGRAMME

This section should be read in conjunction with the 2001 annual report of the Growth and Employment Initiative (1998-2000) COM(2002)345 of July 1, 2002 which includes a description of the programme.

5.1. Main conclusions and Recommendations

Overall, JEV has fallen short of its objectives. It is expensive, slow and complicated to administer, demand for it has been low and any substantial simplification aimed at improving both its attractiveness and its effectiveness would entail losing the entire unused committed budget of +/- EUR 42m. Moreover, the existing committed budget cannot be used for projects involving the candidate countries.

It is therefore recommended to phase out the programme as soon as possible on the grounds of poor cost-effectiveness and lack of demand. It is not considered appropriate to try to launch a similar successor.

5.2. Overview of the Programme

The objective of the programme is to stimulate the creation of transnational joint ventures between SMEs within the European Economic Area (EEA) in order to help them to internationalise their activities and take full advantage of the Single Market. It is open to SMEs from EEA states. The joint venture must be created between at least two SMEs from two different states.

The EU contribution consists of:

1. A grant to cover 50% of the eligible expenses relating to the conception and setting-up of a joint venture (with a maximum contribution of EUR 50,000);

2. A grant of 10% of the investment made in fixed assets.

The maximum overall contribution per project is EUR 100,000. There was also a Promotion Facility (suspended in 2001), under which organisations such as chambers of commerce that organised events where JEV is promoted could claim 50% of the eligible costs (to a maximum of EUR 20,000).

The programme is delivered via a network of 71 Financial Intermediaries (FIs, being mainly commercial banks), selected by the European Commission, which screen applications from SMEs before they are presented to the Commission. A Technical Assistance Unit reviews the submitted files for technical compliance before they are submitted to the Steering Committee, comprised of representatives from Enterprise DG and Economic & Financial Affairs DG, for its opinion. The Commission signs a Specific Agreement with FIs. Payments are made to SMEs via the FIs.

JEV was launched as a pilot action by Commission decision in November 1997 with a budget of EUR 5m. It was subsequently incorporated into the Growth and Employment Initiative (1998-2000) in May 1998 with an additional budget of EUR 84m, subsequently reduced to EUR 52m due to lack of demand (the balance being reallocated to the two other instruments). Originally it was open only to SMEs from EU Member States but was extended to include Norway, Iceland and Liechtenstein in 2000.

5.3. Context of the operation

JEV was conceived in order to fill a perceived gap in EU support for the creation of transnational joint ventures. The ECIP (European Community Investment Partners) programme, launched in 1989, provided financial support to EU enterprises seeking to establish joint ventures in Asia, Latin America, the Mediterranean basin and South Africa. The JOP programme (Joint Venture Programme – PHARE/TACIS), launched in 1991, provided similar support for enterprises seeking to establish joint ventures in the countries of central and eastern Europe and the former Soviet Union. JEV addressed the lack of such support for the creation of transnational joint ventures within the European Union and, from 2000 onwards, the European Economic Area.

The financial support provided for JEV project feasibility studies is much lower than that foreseen for JOP and ECIP. For the feasibility phase of a project, a maximum intervention of EUR 50,000 was foreseen, compared to EUR 75,000 with JOP and EUR 250,000 with ECIP. When JEV was drafted it was thought that the lower ceilings were justified, as there was less complexity involved (shorter distances within the EU and easier communications / infrastructure). It may, however, be that the Facility was subsequently seen as being less attractive for SMEs and FIs.

The JEV network of financial intermediaries, which represented the contact point for SMEs, was basically the same as that for JOP and, to a lesser extent, ECIP. JEV was seen as a useful complement to the range of “products” that could be offered to SME customers and the three programmes together provided the FIs with critical mass, allowing them to assign dedicated staff to handle the applications. At the end of 1999, however, ECIP came to an end and was not renewed, thus reducing the project flow for many FIs. Following this, in March 2000, JOP was phased out, leaving only JEV, which exacerbated the situation for the FIs. Given that very few JEV projects were being submitted, some FIs left the network (which no longer offers full geographic coverage) while others reduced the scale of their activity. This made it harder for SMEs to access the programme and further reduced demand.

Both ECIP and JOP were (at least to some extent) victims of the increasing administrative burden imposed on both the services running them and the beneficiaries (SMEs) in order to reduce the risk of irregularities to an absolute minimum. JEV suffered in the same way, to the point where around 20% of SMEs withdrew their applications, either because they found the application procedure too burdensome or because the amount of support they had applied for was cut. Others, even after creation of a joint venture, have not bothered to apply for an investment grant, since the procedures are considered too long and they stand to gain too little relative to the effort involved.

5.4. Overview of the development of the programme

JEV got off to a slow start (as had ECIP and JOP) but demand started to pick up in 1999 and the first half of 2000, after which it began to fall away again. In 1999 a Promotion Facility was introduced in order to support events at which JEV was promoted. However, overall demand from SMEs was still much lower than expected and criticisms were made, by both FIs and SMEs, concerning the application and payment procedures. From March 2000, Enterprise DG no longer participated in promotion activities and scaled down its participation in the Steering Committee.

In 2001 the Commission services reviewed the possibilities for simplifying JEV, as had been requested in Council decision 2000/819/EC on the Multi-Annual Programme for Enterprise and Entrepreneurship (2001-2005). The Promotion Facility was suspended in September 2001, pending the outcome of the review and because the events supported were not leading to the submission of many new project applications. However, it became clear that the Council decision did not allow the desired simplification to be achieved without loss of the entire committed budget. Nor could the existing budget be used to support projects in, or involving SMEs from, the candidate countries.

This review also revealed that the administrative costs per file are very high (note that figures are estimations): EUR 12,507 for Promotion Facility projects and EUR 17,714 for Preparatory Works and Investment (joint venture) projects (rising to EUR 27,736 when costs of Promotion Facility projects are apportioned). The administrative cost to the Commission of each Promotion Facility project therefore exceeds **100%** of the average commitment, while the administrative cost of each Preparatory Works and Investment project is **28%** (variable cost) or **44%** (including allocated Promotion Facility costs) of the average commitment. These unfavourable ratios were exacerbated by the fact that, on the one hand, the budgets of the submitted projects were often reduced by the Steering Committee (sometimes substantially), while, on the other hand, there were extra staff costs associated with the need to review files very carefully at all stages in order to reduce the risk of irregularities to a minimum.

From the period after the launch of JEV, the Commission received some 30-50 requests for information on the programme per month, which (in the case of SMEs) were referred to the Financial Intermediaries. However, compared to the number of requests received, the number of proposals submitted was very small, in particular after summer 2000, for which the following explanations can be offered:

– the creation of a joint venture company is the most demanding and costly form of transnational co-operation between SMEs. The majority of SMEs seem to prefer looser forms of co-operation, which do not need the prior agreement of a partner before making a decision.

– when considering direct investments in other European countries, 2/3 of SMEs seem to prefer to go it alone, whereas 1/3 enter into co-operation activities, including the creation of a JV company with a local partner, in order to share the risk, reduce the financial exposure and take advantage of the partner's knowledge of local markets.

– the handling fee for the Financial Intermediaries was rather low (EUR 1,000 per file) and did not provide a real incentive to encourage SMEs to participate in JEV, especially in view of the Commission's frequent requests for additional information on proposals, which had to be channelled through the FIs. In addition, some FIs charged an additional (and sometimes substantial) handling fee to SMEs simply for accepting and processing the application, which may have discouraged some SMEs from applying.

– JEV has gained the reputation of being slow, bureaucratic and very demanding.

5.5. Methodology for questionnaires

The survey of SMEs covered the following:

– how the applicant first heard of the programme and the main reasons for seeking support from it;

– the applicant's perception of the effect of the support on the success of the programme and the main results achieved

– the effect on the employment situation (job creation) at the end of 2001 and the expected effect in 5 years' time;

– the overall appreciation of the programme.

This was complemented by a survey of the Financial Intermediaries to have their opinion:

– as to the objectives and eligibility criteria;

– as to the mechanics of the programme operation and

– as to their overall appreciation of the Facility.

5.6. Methodologies for the data collection and analysis

For the JEV Programme, given that the population is relatively small, it was decided to send a questionnaire to all the applicant SMEs participating and to all the Financial Intermediaries. Questionnaires to SMEs were prepared in English (complete with an explanatory cover note) and translated into Dutch, French, German, Greek, Italian, Portuguese and Spanish, the appropriate language being sent out and the balance in English. Questionnaires to Financial Intermediaries were prepared and sent out in English.

A total of 175 SMEs and 78 Financial Intermediaries were thus addressed by post.

A follow up of Financial Intermediaries by phone was made in order to encourage a higher level of response.

5.7. Results of the Survey

Utilisation of the programme

Demand for JEV was much lower than anticipated. From the start in 1998 until 31 December 2001, only 243 projects were received by the Commission services, of which 175 were approved. A further 10 projects were presented up to 29 May 2002, of which 5 were approved. Of the 180 approved, 54 were promotion projects and 126 were preparatory work and investment projects. This equates to an average of slightly more than one project received per week.

The total committed up to 29 May 2002 amounts to EUR 13.2 million, excluding technical assistance but including promotion activities. Of this amount, EUR 1.5 million has been paid out to projects.

Contrary to expectations, only about 10% of responses to the questionnaire indicated that the project involved the commercial exploitation of R&D results. More than half indicated that it was to access a new market and the main intention was to test the feasibility of (41%) or develop a new product or service (30%).

Job creation aspects

The job creation effect of the programme has also been disappointing. At the end of 2001 only four applications for investment grants had actually been received and in each case only 20% of the job creation foreseen in the initial application forms had been realised. In total, 12 new jobs were confirmed.

The questionnaires returned by SMEs indicate that 31 joint ventures have in fact been created, leading to 252 new jobs. The SMEs anticipate that employment in these joint ventures will increase to 787 in 5 years' time.

The SMEs have, overall, increased employment in their own enterprise since submitting their JEV application, although it is not possible to demonstrate that JEV was in any way the cause. It was reported that the applicant enterprise saw an average increase of about 9% in employment since the date of the application and that the number of employees in the JVs themselves was expected to increase by a factor of 3 in 5 years' time. The JV increases and the enterprise expectations for the next 5 years were most marked in France, Italy, Denmark and Belgium.

The employment level of the JVs was reported as representing just over 10% of the enterprises as a whole. It is not known to what extent the JV increase involved a transfer of employees from the participating enterprises. Respondents predicted that the increase in the next 5 years would be, on average, of the order of 30% in the lead partner enterprise and about 17% in the partners. The great majority of the joint ventures created and reported so far have opted not to apply for the investment grant. General opinion is that the procedures are too lengthy and complicated. Another reason for not applying for the investment grant is that the joint ventures have invested only limited amounts in fixed assets, so the 10% support has not been considered as incentive enough to justify the administrative effort.

Results from the survey

Two different questionnaires were sent, one to all JEV financial intermediaries and another to all SMEs who submitted a JEV application. 88 SMEs and 40 FIs replied to the questionnaire. The main results were as follows:

- 37 SMEs said they had either created a joint venture or were in the process of doing so, although the exact form of these joint ventures is not known.
- Only 17 SMEs said they would not have started their project without JEV support, whereas 63 said they possibly, probably or definitely would have done so, suggesting that the additionality of the programme is low. On the other hand, around 80% of the SMEs said that the programme had been crucial, significant or helpful for the creation of the joint venture, so the results are somewhat contradictory.

- Most SMEs indicated that they were satisfied with the service they received from the financial intermediary.

- Overall, 32 SMEs indicated that they were satisfied, very satisfied or totally satisfied with JEV, while 42 were not very satisfied or not satisfied at all.

Despite this level of stated satisfaction, many of the respondents (about 80%) took the opportunity to record their comments, largely indicating dissatisfaction with the operation of the Facility. Despite there being some positive comments, the vast majority were damning in their appreciation, emphasising the need for simplification and speeding up of procedures they considered too bureaucratic and seeking greater flexibility. They obviously felt strongly.

5.8. Conclusions and Recommendations

Relevance and Effectiveness

Although the logic behind JEV was considered sound when it was launched, experience has shown that, in reality, the programme is not very attractive to SMEs, as illustrated by the low level of demand and the negative reaction (expressed in the responses to the questionnaires) of many that did participate.

Efficiency

Furthermore, the administrative costs per file are extremely high and very difficult to justify, while the need to apply procedures that minimise the risk of irregularities (learning lessons from the JOP programme) has resulted in a decision process that SME beneficiaries consider to be too slow.

Therefore, although JEV has certainly helped a number of SMEs in the creation of their transnational joint venture, its overall impact has been very limited.

Added value

As with all the Growth and Employment Initiatives, it is not possible to measure precisely any added value. However, it is reasonable to assume that, with the difficulties encountered by those that made use of the JEV Facility, the effect was often negative rather than positive. Many enterprises reported that they had expended time and effort to achieve only rejection. Yes, there was a potential additional facility but in the end it was either difficult to access or largely irrelevant due to the low level of investment in the joint venture.

Appropriateness

Given that:

- it is not possible to simplify the programme without losing the entire budget that has already been committed (approximately EUR 42m);

- it is not possible to use this budget to support projects in the candidate countries;

- an increasing number of financial intermediaries in the JEV network are reducing or ceasing their involvement with the programme and some are discouraging SMEs from applying for it, which is accelerating its decline;

- it seems unlikely that closing down JEV would have any real negative impact on SME activity, since the programme appears to be of only marginal interest to the target population;

- JEV is the type of programme that the Commission believes it should not be running (i.e. a programme that involves the micro-management of small files),

the conclusion of this evaluation is that JEV should be phased out as soon as possible on the grounds that is neither appropriate nor cost-effective. The unspent budget should be decommitted.

Lessons to be learned

If some similar instrument were to be considered in the future, there would have to be a complete rethink as to its design and implementation. The Commission should avoid launching programmes that involve the management of resource-intensive micro-projects.

6. SME GUARANTEE FACILITY

This section should be read in conjunction with the 2001 annual report of the Growth and Employment Initiative (1998-2000) COM(2002)345 of July 1, 2002 which includes a description of the Facility.

6.1. Main conclusions and Recommendations

By making available additional loan finance, the SME Guarantee Facility proved to be a very effective tool as part of a set of measures available, in particular, to smaller SMEs with growth potential but insufficient collateral. The substantial take-up of the finance underlines its relevance and appropriateness.

The SME Guarantee Facility has reached a sizeable population of SMEs active in a wide range of sectors and has achieved broad geographical coverage in the EU.

More than 90% of enterprises benefiting from a guaranteed loan had fewer than 10 employees and there has been a significant increase in employment created by these micro-enterprises, as many of them are start-ups. Most of these beneficiaries are active in traditional sectors.

It should continue to be implemented via a network of financial intermediaries and their banking connections, managed by the EIF.

Generally, there has been a good take-up of the Facility throughout the EU. The extension of the Facility to EU accession countries, where access to finance is especially difficult, should prove particularly beneficial, assuming that a sufficient number of suitable financial intermediaries can be identified.

6.2. Overview of the Facility

The SME Guarantee Facility has been set up to stimulate job creation by supporting the investment activities of SMEs within the European Union, through increased availability of loan finance (access to finance for SMEs with insufficient collateral). This is normally achieved by increasing the capacity of guarantee schemes operating in the Member States and relates to both new and existing programmes.

This Facility provides higher volumes of guarantees for the existing guarantee products of the financial intermediaries (FIs), access to loans for a larger number of small companies for a wide variety of investments and guarantees for riskier loans. The Facility covers part of the losses incurred under the guarantees up to a predetermined amount. The Facility is operated by the European Investment Fund (EIF) on a trust basis. It manages the contacts with financial institutions interested in joining the Facility, evaluates and submits the selected proposals to the Commission services for approval. Appropriate co-operation with Member States is ensured by contacts between the EIF and the relevant national authorities.

6.3. Context of the operation

The EIF has signed contracts with 23 financial intermediaries in 12 countries. There are some countries where guarantee schemes do not exist and/or where public interest in the Facility was low. In these countries, the EIF has tried to find other suitable financial organisations in order to offer guarantee support to SMEs in all Member States.

As at 28 May 2002, the available budgetary resources of EUR 187 million had been fully committed by the EIF. The geographic distribution of these commitments is the following: Germany received the highest proportion: 25%, followed by France which received 20% of the funds, Italy received 16%, Spain 12%, Netherlands 7%, Belgium and UK each received 4%, Denmark, Austria and Sweden 3% each, Finland 2%, and finally Portugal 1%.

It is worth mentioning that there are three EU countries that have not been covered by SME Guarantee Facility, i.e. Greece, Ireland and Luxembourg.

As at 30 June 2002, the aggregate amount of loans granted to SMEs under the Facility totalled EUR 7.3 billion. At the same date, the utilisation of the budgetary resources by the financial intermediaries amounted to EUR 139 million, achieving a very high leverage effect of 55. According to the forecasts by the financial intermediaries, it is estimated that more than EUR 9.8 billion of loans will be granted on the basis of the commitments of EUR 187 million (i.e. the total available budget for guarantees, net of fees).

6.4. Overview of the development of the programme

The objective of the SME Guarantee Facility is to increase the supply of loans to smaller companies (fewer than 100 employees) established in traditional sectors through the provision of loan guarantees. The main aim of these schemes is to have a beneficial effect on the growth of the SMEs and on job creation. The Community budget covers the full cost of the Facility, including the EIF’s guarantee losses and any other eligible costs or expenses under the Facility.

It is worth noting that banks scaled back their lending activities due to the high-risk exposure of loans to SMEs and the slowdown in economic activity towards the end of 2001. Therefore, the overall activity of the intermediaries working under the Facility also decreased. In addition to the decreasing number of guarantees that were included in the SME Guarantee Facility portfolios, the number of cancelled guarantees has increased, especially during the last quarter of 2001. However, 2002 has seen a much higher demand for guarantees.

Moreover, taking into account the deterioration of market conditions since the end of 2000, lower short-term growth prospects and an increase in problem loans, the overall implementation and successful operation of the Facility has been made even more difficult, and may also result in higher than expected potential losses for individual guarantee schemes.

6.5. Methodology for questionnaires

The questionnaire sent out to SMEs was designed to determine:

– the type of investment that was being supported;

– the importance and the effect of the Facility to the project concerned;

– the effect on the employment situation up to the end of 2001 and

– the expected employment situation in 5 years' time.

6.6. Methodologies for the data collection and analysis

Given that the population of SME participants in this Facility is relatively large, it was decided to select a sample for the survey. The database system maintained by the EIF with data provided by the Financial Intermediaries was used as the basic source of data. It contains identification data for each SME with address details. With the help of the EIF and the assistance and advice of Eurostat, a sample was determined and extracted as described below.

Only SMEs that had received a guaranteed loan as at 31/12/2000 were considered for the sample, so as to have a reasonable period in which some effects of the Facility could be measured. For the sample, all guaranteed loans granted before 31/12/1998 were included (a total of 158, mainly from Austria and the Netherlands). As there were only 10 loans in total for Portugal, they were all included.

On an analysis of the number of employees of the enterprises concerned (in all of the data up to 31/12/2000), those that fell in the range 0 to 1 amounted to approximately 40%, in the range 2 to 4 about 33% and in the range 5 to 9 about 14%. Since there is a significant proportion of data in the lower size ranges, it was decided to reflect this by defining the size groups for the sampling as the ranges 0-1, 2-4, 5-9 and 10 or more. Since about 87% is in the range 0-9, it was decided to introduce a weighting to the top range (>/= 10) so as to extract more data for that size group. In addition, about 4% of the employment data on file was missing. The sample therefore included about 4% of this group so that the final sample comprised a spread of data by size range as follows:

N° of employees in range	All data on file	Sampled data
Data missing	4%	4%
0-1	40%	35%
2-4	33%	27%
5-9	14%	18%
>/=10	9%	16%
	100%	100%

The resulting sample comprised data from all participating countries except the UK. The UK operation began only in 2001 and it was therefore not included. The breakdown by Member State is shown below. From a total population of about 54,500 SMEs, a sample of 2,000 was extracted.

	Total population		Sampled	
Austria	2,518	4.6%	238	11.9%
Belgium	277	0.5%	31	1.6%
Germany	11,556	21.2%	293	14.7%
Denmark	128	0.2%	28	1.4%
Spain	2,698	4.9%	165	8.3%
France	16,660	30.5%	425	21.3%
Finland	436	0.8%	66	3.3%
Italy	16,130	29.5%	399	20.0%
Netherlands	2,156	3.9%	205	10.3%
Portugal	10	0.0%	10	0.5%
Sweden	2,069	3.8%	140	7.0%
	54,638	**100%**	**2,000**	**100%**

Questionnaires to SMEs were prepared in English (complete with an explanatory cover note) and translated into Danish, Dutch, French, Finnish, German, Italian, Portuguese, Spanish and Swedish for distribution by post. The questionnaires were sent out by post with an option for enterprises to request an electronic version by return if so desired.

In practice, it turned out that the quality of the address information was very poor. Although it was to be expected that a number of enterprises would no longer be at their original address, the number of letters returned was higher than expected.

6.7. Results of the Survey

The following table summarises the replies received by Member State:

Country	Sent	Received	%
Austria	238	57	24%
Belgium	31	3	10%
Germany	293	57	20%
Denmark	28	5	18%
Spain	165	17	10%
France	425	34	8%
Finland	66	29	44%
Italy	399	121	30%
Netherlands	205	47	23%
Portugal	10	5	50%
Sweden	140	30	21%
Total	**2,000**	**405**	**20%**

Out of a total of 2,000 questionnaires for the SME Guarantee Facility, 405 responses were received. The low response rate from France, Belgium and Spain is probably due in large part to the poor quality of the address information held on file.

The following analysis is based on these responses, with some of the figures being adjusted where not plausible. Otherwise it was assumed that the figures were accurate, there being no reason for respondents to falsify as there was no question of eligibility, e.g. for funding, arising.

Employment aspects

It is difficult to confirm that the effect on job creation was a direct result of the SME Guarantee Facility or, indeed, a result of the investment projects themselves. However, it seems from the results reported that the guarantee has played an important role in the investment projects. About 74% reported that it had been the intention to create or maintain jobs through the investment. Of these, about 87% confirmed that their intention to create jobs was achieved and about 81% succeeded in their objective of maintaining existing jobs. Overall, the number of employees reported as existing at the point of applying for the loan had risen from about 3,300 to 4,300, an increase of about 30%. This may be considered a very good achievement.

The projects were spread across several sectors. Marked increases, above 50%, were achieved in the transport sector (full description: "Transport including land transport, railways, taxi, water transport, travel agencies, storage and telecommunications") and in education and health.

The bulk of the employment at the end of 2001 was in the age groups 25-34 years old (38%) and 35-54 years old (40%), with the vast majority (86%) being full time employment. (One specialist company declared more than 1,000 part time employees working for only 5 days a year and this figure was adjusted so as not to distort the overview.) The overall male:female split was approximately 2:1.

More than 72% indicated that the loan was decisive in carrying out the project as intended whereas less than 10% thought that the investment project would have gone ahead as planned if the loan had not been available.

A breakdown of the job creation achieved (end 2001) was made by country and size class. The average size of an SME was fewer than 10 employees. The population was split by size class by number of employees on application as follows: 0-1, 2-4, 5-9 and 10 or more. It should be noted that some of the schemes that are guaranteed by the SME Guarantee Facility restrict their loan portfolios to a maximum of 10 employees per SME.

An average of about 2.5 jobs per company was created (rising from an average company size of about 8.2 to an average of just under 11) with a contribution from the top size class (i.e. 10 or more employees) of 3.9 (with the average rising from 26.5 to about 30.4). When only those enterprises that declared an intention to create jobs are analysed, the average rises to 3.9 (average size from 7 to 11). Averages rise significantly in all size classes but particularly in the top size class to 6.8 (average size from 28 to 35). The contribution to this job creation was most marked in France and Spain (in Denmark the sample is small), with a solid achievement in Germany.

Examination of the percentage job creation shows a significant increase in employment created by micro-enterprises (fewer than 10 employees). They form over 90% of the total beneficiary population and reported that the increase in jobs was of the order of 86%.

Prospects for employment were not, however, as high when projected forward to the end of 2002 and 2003. A significant number of enterprises did not attempt to predict employee numbers in the questionnaire for 2002 and 2003. It was taken that the latter would at least maintain the numbers they predicted for the end of 2001 in 2002 and from 2002 to 2003. With this assumption, the responses were modified and the rises then predicted were approximately 8.5% and 10% in successive periods.

The result was approximately 1 new job per company in each of 2002 and 2003, which seemed to indicate that the bulk of the job creation had already taken place by the end of 2001. The top size class reported a higher level on average for 2003, at around 2.6.

Training

Training declared was only 2.5 man-days per employee overall. It may be that the smaller enterprises operating in traditional sectors do not always see the importance of investment in the training sector. In Germany, it was highest, reported as being 6.9, with the higher results ranging from 2.8 in Austria, 3 in Denmark and 3.5 in Italy, Spain and Finland.

Appreciation of the Facility

The European nature of the Facility is not particularly well appreciated. Only in Italy and the Netherlands did a majority of the participant SMEs know that the loan they received was supported by a guarantee from the EU. Overall, about 53% were not aware of this fact and in Sweden, none of the SMEs was aware.

A large majority of the SMEs (about 72%) were of the view that without the SME Guarantee Facility support, their project would have been significantly delayed or scaled down (38%) or would not have proceeded at all (35%). Less than 10% thought they would have proceeded as originally planned. Such a reaction would tend to underline the usefulness of the Facility, as indeed would the number who responded positively when asked if they would consider applying for another loan to support further investment. Of those who planned further investment (about 58% of the respondents), about 82% indicated that they would envisage applying for another loan under the Facility. This indicates a high degree of satisfaction.

The vast majority (95%) thought that their project was important for the development of their enterprise, with about 26% believing it to be crucial to its survival. The main benefits were perceived to be in increasing sales or turnover (56%) and developing new products or services (33%). The efficiency increases seem to be most marked in the area of production systems and processes (45%), but the results were significant in the areas of sales and marketing too (39%) and finance and administration (33%), whereas only about 10% perceived improvement in research and development.

SME comments

Some respondents took the opportunity to give free-form comments. Although there were some negative aspects raised, this opportunity was largely used to give more precision to the individual responses. Overall the pattern was, if anything, on the positive side.

6.8. Conclusions and Recommendations

Relevance and Appropriateness

The objective of the Growth and Employment Initiative was to increase the availability of loan finance to SMEs with growth potential, thus enabling them to create jobs. By making available additional finance, the SME Guarantee Facility appears to be an effective tool as part of a set of measures available, in particular, to smaller SMEs with this potential. In addition, the substantial take-up of the finance would seem to underline its relevance and appropriateness. Small businesses need access to finance with the associated financial advice that can be offered by skilled financial intermediaries and banks that are close to the customer.

Effectiveness

The SME Guarantee Facility has proven to be a very effective instrument reaching a sizeable population of SMEs active in a wide range of different sectors and has achieved a broad geographical coverage in the EU.

The clear impression is that the Facility has been effective in enhancing access to finance for smaller SMEs and in employment creation and would continue to be effective. It should be confirmed as one of the instruments marketed by the Commission for future SME support. More than 90% of companies benefiting from a guaranteed loan had fewer than 10 employees and there has been a significant increase in employment created by these micro-enterprises.

The majority of beneficiaries are in traditional sectors.

Efficiency

In making use of a network of financial intermediaries and their banking connections, it has been implemented in a most efficient way, as it takes advantage of the privileged relations that exist between banks and their clients. The management of the implementation by the EIF has also allowed for a relatively small amount of human resources to be assigned from within the Institutions. The involvement of the EIF, which is implementing other programmes in parallel, takes advantage of its expertise and surely has a synergetic effect.

Added value

In the experience of the operational teams, the SME Guarantee Facility has resulted in additional finance being made available to SMEs through the financial intermediaries operating the Facility.

In general, banks consider SME lending as less profitable because of the proportionally higher unit handling costs, the relatively higher risk and the difficulty to carry out proper credit risk assessment due to the lack of complete information. Therefore, and in view of the pending modification to the Basle Capital Accord, access to loan finance is likely to become more difficult for SMEs in the future.

Although it is difficult to prove that the results observed in the beneficiary population can be attributed directly to the effect of this type of scheme, it is nevertheless clear that there has been a significant positive impact within the population of the SME Guarantee Facility. Overall, there has been significant growth both in employment and in the operations of a large number of SMEs that benefited from the Facility.

Lessons to be learned

Generally, there has been a good take-up of the Facility throughout the EU. The extension of the Facility to EU accession countries, where access to finance is especially difficult, should prove particularly beneficial, assuming that a sufficient number of suitable financial intermediaries could be identified.

Perhaps some further effort should be invested in marketing in order to emphasise the European nature of the Facility and efforts should continue to extend the range of its application in those Member States where the take-up has been less pronounced. The number of participants continues to grow and future monitoring should be encouraged to confirm that the positive trend continues.

The results achieved so far confirm clearly that the Facility responds to SMEs requirements, in particular smaller SMEs with fewer than 10 employees. It should be considered whether further budgetary means could be applied in order to target more applications from start-ups.

2003/292 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Decision 2000/819/EC on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005)

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 157(3) thereof,

Having regard to the proposal from the Commission[8],

Having regard to the opinion of the European Economic and Social Committee[9],

Having regard to the opinion of the Committee of the Regions[10],

Acting in accordance with the procedure laid down in Article 251 of the Treaty,

Whereas:

(1) On 5 November 1997, the Commission adopted Decision 97/761/EC approving a support mechanism for the creation of transnational joint ventures for SMEs in the Community[11].

(2) The ETF Start-up Facility, the Joint European Venture (JEV) programme and the SME Guarantee Facility were measures provided for in Council Decision 98/347/EC of 19 May 1998 on measures of financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs) – the growth and employment initiative[12].

(3) The multiannual programme set up by Council Decision 2000/819/EC[13], which was adopted on 20 December 2000, aims at improving the financial environment for business, in particular by improving the functioning of the ETF Start-up Facility, amending the SME Guarantee Facility and, with regard to JEV, by using for the benefit of undertakings planning to enter into a transnational partnership the commitments effected up until 31 December 2000 under Decision 98/347/EC.

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8 OJ C , , p. .
9 OJ C , , p. .
10 OJ C , , p. .
11 OJ L 310, 13.11.1997, p. 28.
12 OJ L 155, 29.5.1998, p. 43.
13 OJ L 333, 29.12.2000, p. 84.

(4) According to point IV of Annex II to Decision 2000/819/EC, experience has shown that the JEV programme needs to be simplified in order to enable SMEs' requests for financial contributions to be dealt with quickly by the financial intermediaries and Commission departments and to ensure that Community resources are used correctly. It was also stated that the Commission was examining the possibility of adapting the eligibility criteria in order to respond more effectively to the needs of SMEs with regard to cross-border investments, including those in applicant States.

(5) On 10 September 2002 the European Parliament adopted a resolution14 on the Commission report15 on the Growth and Employment Initiative, where it notes that the JEV programme in its current form is no longer appropriate.

(6) The evaluation of the Growth and Employment Initiative as at 29 May 2002[16] concludes that the take-up of the JEV programme by the market is low, the job creation effect limited and the administrative cost very high and that JEV should be phased out as soon as possible.

(7) For reasons of cost-efficiency, the Community should withdraw progressively from programmes that involve micro-management of small amounts of money, as is the case with the projects financed under the JEV programme.

(8) After careful analysis, it has to be concluded that a substantial simplification of the JEV programme is not possible, since any substantial change to the structure or eligibility criteria of the programme would change its nature and therefore be outside the scope of the legal basis (Council Decision 98/347/EC). Therefore it would not be possible to use the remaining committed budget nor would it be possible to use the budget for projects involving the accession and candidate countries.

(9) The budget for the JEV programme was committed on the basis of framework agreements signed with the financial intermediaries in the JEV network, thus creating a direct legal relationship between the Commission and these intermediaries. Therefore a replacement of these existing framework agreements with direct legal agreements between the Commission and SMEs, which, in this particular programme, would have resulted in simplification and improved protection of the financial interests of the Community, is not possible.

(10) Only relatively minor procedural changes would be possible without losing the remaining budget, which are deemed to be insufficient to ensure that the programme performs significantly better.

(11) It is not possible to use the remaining committed budget for projects involving the accession and candidate countries, since this budget was committed under the Growth and Employment Initiative (1998-2000) and is therefore reserved exclusively for those

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14 Resolution on the Report from the Parliament on Growth and Employment Initiative - measures on financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs), PE 316.350 of 24.7.2002.

15 Report from the Commission to the European Parliament and the Council on Growth and Employment Initiative - measures on financial assistance for innovative and job-creating small and medium-sized enterprises (SMEs), COM(2002)345 of 1.7.2002.

16 [COM(2003) 8.12.2003]

states that were members of the European Union and European Economic Area at the time that Council Decision 98/347/EC entered into force.

(12) Since the phasing-out of the other two European transnational joint venture programmes – European Community Investment Partners (ECIP) for the developing countries in Asia, Latin America, the Mediterranean region and South Africa (ALAMEDSA countries) in 1999 and the Programme to promote SME joint ventures and other joint agreements (JOP) in the Central and Eastern European Countries (CEECs) and New Independent States (NIS) in 2000 – many financial intermediaries in the JEV network have scaled down or ceased this activity because of the low volume of JEV applications from SMEs with the result that in the majority of Member States, in reality, it is no longer possible to apply for the programme.

(13) In view of the clear conclusion of the evaluation, it is not considered appropriate to propose to replace the JEV programme with a similar one.

(14) The phasing-out of the JEV programme should not affect the rights and obligations of the Community, the financial intermediaries and the beneficiaries (SMEs) that relate to approved projects.

(15) In order to respect their legitimate expectations, the financial intermediaries should be able to present applications for financial contributions for SMEs for a certain period after this Decision has been adopted.

(16) For the purpose of promoting innovation, research and development and entrepreneurship by SMEs, as requested by the Barcelona Council, an environment favourable to private sector investment in research and development, in particular through venture capital, should be encouraged.

(17) The Competitiveness Council of 26 November 2002 stated that Member States, the Commission and financial institutions should consider how to improve the financial framework for biotechnologies.

(18) The European Parliament requested, in the report on life sciences and biotechnologies of 21 November 2002, that the Commission should identify how to overcome the issue of insufficient funding regarding biotech start-ups and asked the European Investment Bank to give favourable consideration to follow-up actions.

(19) Decision 2000/819/EC should be amended accordingly,

HAVE ADOPTED THIS DECISION:

Article 1

Decision 2000/819/EC is amended as follows:

(1) Annex I is amended as follows:

(a) In the first indent of point 4(a)(i), the first sentence is replaced by the following:

“by investing in relevant specialised venture capital funds, particularly in seed funds, smaller funds, funds operating regionally or funds focused on specific sectors or technologies, or venture capital funds financing R&D, e.g. funds linked to research centres and science parks which in turn provide risk capital for SMEs.”

(b) In point 4(a)(i) the following indent is added:

“– the start-up phase is normally defined as up to 5 years. However, for companies in specific high technology sectors, in particular life sciences, the start-up phase can be up to 10 years, due to the extended pre-commercialisation product development and testing phases that are characteristic of these particular sectors.”

(c) In point 4(a)(iv), the following subparagraphs are added:

“The Joint European Venture programme shall be phased out.

The financial intermediaries may present applications for financial contributions from SMEs to the Commission until [date of entry into force + 115 days - to be entered at the moment of publication].

Applications and projects shall be dealt with according to Article 4 and Annex II of Council Decision 98/347/EC.”

(d) In the first indent of point 5, the word “fifth” is deleted.

(2) In Annex II, point IV is deleted.

Article 2

This Decision shall enter into force on the 20th day following its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament *For the Council*
The PresidentThe President

FINANCIAL STATEMENT	DATE:
1. BUDGET HEADING: B5-511	APPROPRIATIONS:
2. TITLE: Multiannual programme for enterprise and entrepreneurship, and in particular for SMEs (2001-2005): improvement of the financial environment for SMEs	
3. LEGAL BASIS: Council Decision 2000/819/EC	
4. AIMS: The Community financial instruments are developed with a view to improving the financial environment of SMEs.	
5. FINANCIAL IMPLICATIONS: B5-511 "Programme for enterprises: improvement of the financial environment for SMEs": This amendment has no financial implication on the current commitment and payment appropriations of the ETF Start-up Facility, Seed Capital Action and SME Guarantee Facility for the year 2003 and onwards. B5-512 "Completion of the Employment initiative (1998 to 2000)": However, the closing of the JEV programme, which is funded under the B5-512 based on the Council Decision 98/347/EC of 19 May 1998, will generate a decommitment which is currently estimated to amount to +/- EUR 43 million. The exact amount of decommitment can only be established when all projects have been closed, which will not be before 2007	
OBSERVATIONS: The original estimates for commitment of the budget for JEV under the Growth & Employment Initiative (1998-2000) were EUR 20m in 1998, EUR 30-40m in 1999, EUR 30-40m in 2000. The actual gross commitments for these years were EUR 0.4m in 1998, EUR 3.9m in 1999 and EUR 3.4m in 2000. In addition, EUR 1.25m was committed between December 1997 and December 2000 for the Technical Assistance Office contract. Forecasts for subsequent JEV budgetary commitments were EUR 22.8m in 2001, EUR 37m in 2002 and EUR 50.3m in 2003. The actual gross commitments were EUR 3.2m in 2001, EUR 3.7m in 2002 and EUR 1.2m up to 14.10.03. As at 30.9.03, only EUR 2 400 462 had been paid out (excluding costs for the Technical Assistance Office). Overall it was expected that almost 1 300 joint venture projects would be supported but by 30.9.03 agreements for only 155 such projects had been signed (approximately 12% of the original estimate). It should be noted that even this very low level of commitments substantially overstates the amount that will ultimately be paid out to beneficiaries, since for each project approved a commitment of EUR 100 000 (the maximum that a beneficiary might theoretically be entitled to) is made. The final cost per project is almost invariably much lower, resulting in a decommitment when the file is closed. For this reason, actual use of the budget might ultimately be less than 5% of original estimates.	